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Department of Finance

News Release

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New Measures to Increase Fairness and Efficiency of the Sales Tax System

The Honourable Jim Flaherty, Minister of Finance, today tabled a Notice of Ways and Means Motion in the House of Commons to implement measures aimed at increasing the fairness, efficiency and ease of compliance and administration of the sales tax system.

"Canada's New Government is committed to reducing taxes and eliminating red tape. We believe this will make our economy stronger and that it will give a competitive advantage for Canada," said Minister Flaherty. "The Motion we tabled today will increase the fairness of the sales tax system for many individuals with special needs and ease compliance for a wide range of businesses and other organizations."

The proposals, which pertain to the goods and services tax and the harmonized sales tax, the application of the taxation of wine, spirits and tobacco and the application of the Air Travellers Security Charge, will also ensure that existing legislation continues to accord with the policy intent.

Most of these proposals were previously released in the form of draft legislation to provide affected stakeholders with the opportunity to comment on the measures prior to enactment. These proposals also include a few technical amendments that were not previously announced, but which are required to address recently identified matters.

The attached schedule provides a summary of the principal proposals and the attached explanatory notes provide details on all of the proposed measures. References to "Announcement Date" in the explanatory notes should be read as referring to today's date.

The legislative proposals and explanatory notes are available on the Department of Finance website. Printed copies of the legislative proposals and explanatory notes are available for $10 and $15 respectively from the Department of Finance Distribution Centre at 613-995-2855.

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SCHEDULE

Part 1 of this motion mainly implements proposed measures relating to the Goods and Services Tax and Harmonized Sales Tax (GST/HST). Part 2 contains measures relating to the Excise Act, 2001 and other Acts, with respect to the taxation of tobacco, spirits and wine. Finally, Part 3 contains measures relating to the Air Travellers Security Charge.

GST/HST Measures

The GST/HST measures, contained in Part 1 of this motion, are principally aimed at improving the operation and fairness of the GST/HST in the affected areas and ensuring that the legislation accords with the policy intent. In some cases, adjustments have been made to the legislation as originally proposed in response to representations from the tax and business communities.

The principal GST/HST measures are as follows:

Health

- confirms the GST/HST exemption for speech-language pathology services;
- exempts health-related services rendered in the practise of the profession of social work;
- zero-rates sales and importations of a blood substitute known as plasma expander;
- restores the zero-rated status of a group of drugs, collectively known as Benzodiazepines;
- broadens the specially equipped vehicle GST/HST rebate so that this rebate applies to motor vehicles that have been used subsequent to being specially equipped for use by individuals with disabilities;

Charities

- ensures that the exemption of supplies by charities of real property under short-term leases and licences extends to any goods supplied together with such real property;

Business Arrangements

- provides transitional GST/HST relief on the initial asset transfer by a foreign bank that restructures its Canadian subsidiary into a Canadian branch;
- removes technical impediments that hinder the use of existing group relief provisions under the GST/HST;
- simplifies compliance by excluding beverage container deposits that are refundable to the consumer from the GST/HST base;
- permits an agent to claim a GST/HST deduction for bad debts, and to claim adjustments or refunds of tax, in respect of sales made on behalf of a principal where the agent collects and reports tax;
- extends the existing agent rules under the GST/HST legislation to persons acting only as billing agents for vendors;
- better accommodates special import arrangements between businesses in certain situations where goods are supplied outside Canada to a Canadian customer;

- ensures that GST/HST group relief rules cannot be used to exempt from GST/HST otherwise taxable clearing services that are provided by a group member to a closely related financial institution who will then re-supply those services on an exempt basis to a third-party purchaser outside the group;
- clarifies the treatment of the right to use certain types of amusement or entertainment devices, such as the playing of a game, when it is provided through the operation of a mechanical coin-operated device that can accept only a single coin of twenty-five cents or less as the total consideration for the supply;
- confirms the policy intent and Canada Revenue Agency's existing practise that no GST/HST or provincial sales taxes on a passenger vehicle are included in calculating the maximum allowable value for input tax credit purposes;

Governments

- ensures that a small supplier division of a municipality is treated in the same manner as a municipality that is a small supplier;
- exempts a supply of a right to file or retrieve a document or information stored in an electronic official registry;

HST-related Rules

- as announced by the Government of Nova Scotia, limits the availability of the current Nova Scotia HST New Housing Rebate to first-time homebuyers and reduces the maximum rebate available to $1,500;
- includes in the Act the draft Specified Motor Vehicle (GST/HST) Regulations, which prescribe the value of a specified motor vehicle for the purposes of calculating the 8 per cent provincial component of the HST in circumstances where the vehicle is brought into a participating province and prescribe the manner in which that tax is required to be paid;

Administration

- adds a discretionary power for the Minister of National Revenue to accept late-filed applications for the GST New Housing Rebate and the Nova Scotia HST New Housing Rebate for owner-built homes, where exceptional circumstances have prevented an applicant from meeting the normal filing deadline;
- adds a discretionary power for the Minister of National Revenue to accept late-filed elections between closely related financial institutions for adjustments that they are required to make for the provincial component of the HST;
- permits the Minister of National Revenue to exchange GST/HST information with foreign governments that are signatories to the Convention on Mutual Administrative Assistance in Tax Matters; and
- adds a discretionary power under the Act for the Chief Statistician of Canada to provide statistical information concerning business activities to the provinces similar to an existing provision in the Income Tax Act.

Excise Measures

The measures contained in Part 2 of this motion amend the Excise Act, 2001 to implement minor refinements that will improve the operation of the Act and more accurately reflect current industry and administrative practices. They also implement related and consequential amendments to the Access to Information Act, the Customs Act, the Customs Tariff and the Excise Tax Act.

The principal measures related to the Excise Act, 2001 included in this motion are as follows:

Tobacco

- extends the requirement to identify the origin of tobacco products to all products, including those for sale at duty-free shops or for export, consistent with the Framework Convention on Tobacco Control, an international treaty on tobacco control;
- clarifies that cigarettes, tobacco sticks, fine-cut tobacco or cigars, but not packaged raw leaf tobacco, may be supplied to the export market or the domestic duty-free market;

Alcohol

- authorizes private laboratories, provincial liquor boards and vintners to possess a still or similar equipment and produce spirits for the purpose of analysing substances containing ethyl alcohol without holding a spirits licence;
- defers the payment of duty by small vintners selling wine on consignment in retail stores operated by an association of vintners until the wine is sold;

Administration

- permits the Minister of National Revenue to exchange excise duty information with foreign governments that are signatories to the Convention on Mutual Administrative Assistance in Tax Matters; and
- adds a discretionary power under the Act for the Chief Statistician of Canada to provide statistical information concerning business activities to the provinces similar to an existing provision in the Income Tax Act.

Air Travellers Security Charge Measures

The measures pertaining to the Air Travellers Security Charge (ATSC), contained in Part 3 of this motion, include previously announced relief provisions, as well as technical changes to the Air Travellers Security Charge Act.

The principal measures related to the ATSC included in this motion are as follows:

Relief

- relieves, in particular circumstances, the ATSC in respect of air travel sold by resellers or donated by air carriers; and

Administration

- provides authority for the Governor in Council to add, delete or vary by regulation the schedule of listed airports.